Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213

PETITION FOR RECONSIDERATION OF U S WEST, INC.

Pursuant to Section 1.106 of the rules of the Federal Communications Commission ("Commission"),[1] U S WEST, Inc. ("U S WEST") seeks reconsideration of the Commission's Third Report and Order in the above proceedings.[2]

In the Third Report and Order, the Commission ordered the reallocation of costs attributable to general purpose computers and general support facilities ("GSF") to the Billing and Collection ("B&C") category. As we explain below, implementing this reallocation on a "flash cut" basis will require U S WEST to implement significant increases in the prices it charges for B&C services. Those increases may price the service beyond the means of small interexchange carriers ("IXC"), who rely more heavily on the incumbent local exchange carriers ("LEC") for B&C services than do the large IXCs, such as AT&T Corp. ("AT&T") and MCI Telecommunications Corporation ("MCI"). These increases could put the service

[1] 47 C.F.R. § 1.106.

[2] In the Matter of Access Charge Reform, Transport Rate Structure and Pricing, CC Docket Nos. 96-262 and 91-213, Third Report and Order, FCC 97-401, rel. Nov. 26, 1997.

into a "death spiral," in which ever fewer customers are forced to cover ever-increasing costs, ultimately precluding U S WEST from providing the service at all. Not only would this deprive the smaller IXCs of a source of reasonably-priced B&C services, it would deprive U S WEST of an opportunity to recover the costs the Commission has reallocated to B&C, thereby raising confiscation concerns.

Because of these concerns, U S WEST believes the Commission should adopt the allocation methodology proposed by U S WEST in its Comments.[3] At a minimum, the Commission should phase in these cost reallocations over a three-year period (one-third each on January 1, 1998, 1999 and 2000). Such a transition scheme would afford all the affected parties time to adjust to the changes wrought by the Third Report and Order, and it would enable the Commission to adjust course in light of any unintended consequences arising from the implementation of that Order.

ARGUMENT BECAUSE OF THE SEVERE CONSEQUENCES OF THE REALLOCATION PROPOSAL ORDERED IN THE THIRD REPORT AND ORDER, THE COMMISSION SHOULD ADOPT U S WEST'S PROPOSAL OR, AT A MINIMUM, PHASE IN THE CHANGES OVER A THREE-YEAR PERIOD

In the Third Report and Order, the Commission concluded that its existing rules allocated no portion of general computer investment to B&C services, even though the LECs utilize general purpose computers in the provision of that service.[4] To remedy this situation, the Commission required the LECs to allocate a portion of general purpose computer investment (Account 2124) to B&C on the basis of the

[3] Comments of U S WEST, CC Docket Nos. 96-262, et al., filed June 26, 1997 at 6-7.

"Big Three Expense Factors" allocator, modified to exclude expenses apportioned using allocators that include GSF investment.[5] Because computers occupy land and buildings, and rely on office equipment, the Commission required a similar allocation of investment in Land (Account 2111), Buildings (Account 2121) and Office Equipment (Account 2123).[6]

In reaching its decision, the Commission had no information available to it regarding the impact of this change on the LECs' B&C services. U S WEST has now calculated that impact as to its own B&C service. In light of that calculation, U S WEST believes the Commission should reconsider its decision.

U S WEST estimates that this reallocation will require it to increase its bill rendering charge by \$.25-.27, an increase of some 60-65%,[7] to cover the additional costs thereby attributed to B&C. This increase will fall disproportionately on the smaller IXCs, who generally have fewer options for B&C services than are available to the larger IXCs.[8] The large IXCs are generally in a better position to provide B&C services to themselves; in any case, their size gives them more leverage to obtain better prices and terms from outside suppliers. The reallocation, as ordered by the Commission, thus will likely hurt the competitive posture of the smaller IXCs.

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[4] Third Report and Order ¶ 17.

[5] Id. ¶ 33.

[6] Id. ¶ 35.

[7] U S WEST's standard rate for bill processing is now \$.42.

[8] U S WEST provides billing directly for about 20 small carriers and some 30 clearing agents, who submit bills on behalf of other carriers.

Some small IXCs will likely seek to acquire bill rendering services from other sources. These sources, however, are unlikely to have the LECs' efficiency at collecting, perhaps leading to a higher level of uncollectibles. Thus, even if a smaller IXC can find a cheaper billing alternative, it might thereby suffer.

Indeed, the price increases required by the Third Report and Order could put B&C services into a "death spiral," in which ever fewer customers pay ever greater rates to cover ever greater costs, until no one can afford the service and the LEC loses all its B&C business. Aside from the problems this scenario would create for those who rely on the LECs' B&C service, it would give rise to significant confiscation concerns.

The Commission's rules use a fixed allocator to separate B&C investment and expenses between the interstate and intrastate jurisdictions. Even if a LEC has no B&C business, the rules require it to allocate some portion of its overall B&C investment and expense, now including its investment in general purpose computers and facilities supporting those computers, to B&C. Indeed, a portion of the general purpose computers will continue to be allocated to B&C, even if those computers are no longer used to provide B&C service. In that circumstance, the Commission will effectively have denied the LEC an opportunity to earn on the investment that is misallocated in that fashion, effectively confiscating that investment.

The Commission can avoid these problems by implementing the reallocation methodology proposed by U S WEST in its Comments and seconded by Ameritech.[9] That proposal would apply the allocation factor to apportion only Account 2124 (computers), rather than all of Account 2110. The allocation of Account 2124 would be summarized into Account 2110 and secondary allocations of expenses (such as the Part 69 Big Three allocator and the other allocations described in Section 69.309 of the Commission rules) would drive additional allocations to B&C, including computer expenses in Account 6124. This method accomplishes the goal of assigning computer expenses in Account 6124, as well as other GSF expenses (Account 6120) to the B&C element, but it avoids the significant dislocations of investment between the access, B&C and interexchange elements, thus greatly ameliorating the impacts noted above.

In the alternative, the Commission should implement its proposed reallocation on a phased basis. If the Commission retains the reallocation methodology required by the Third Report and Order, U S WEST believes it should adopt a three-year transition period, similar to its transition of tandem switching costs from the Tandem Interconnection Charge to the tandem switching rate elements.[10] Under such a plan, the LECs would immediately change their access rates to reflect reallocation of one-third of the amounts they reallocated in their

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[9] Comments of Ameritech in Response to Further Notice of Proposed Rulemaking, CC Docket Nos. 96-262, et al., filed June 26, 1997 at 7-8.

[10] In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges, First Report and Order, 7 Comm. Reg. (P&F) 1209, 1263 ¶ 198 (1997), appeals pending sub noms. Southwestern Bell Telephone Company, Inc., et al. v. FCC, Nos. 97-2618, et al. (8th Cir.).

tariffs effective January 1, 1998; half of the remaining amount would be reallocated with the tariff filings effective January 1, 1999, and the amount then remaining would be reallocated with tariff filings effective January 1, 2000.

Such a transition will afford the IXCs -- and particularly the smaller IXCs, who are likely to be most adversely affected -- time to adjust to the B&C price increases that will inevitably follow this reallocation. Moreover, a transition will give the Commission an opportunity to fine tune its course, if events suggest that the full reallocation will indeed require the LECs to price B&C services beyond the reach of the smaller IXCs.

For these reasons, U S WEST requests that the Commission reconsider the Third Report and Order and implement the reallocation methodology proposed by U S WEST. In the alternative, the Commission should implement its reallocation proposal over a transition period of three years, or some other suitable period.

Respectfully submitted,

U S WEST, INC.

By: ______________________

Richard A. Karre
Suite 700
1020 19th Street, N.W.
Washington, DC 20036
(303) 672-2791

Its Attorney

Of Counsel,
Dan L. Poole

January 14, 1998

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 14th day of January, 1998, I have caused a copy of the foregoing **PETITION FOR RECONSIDERATION OF U S WEST, INC.** to be served, via hand-delivery, upon the persons listed on the attached service list.

Kelseau Powe, Jr.

(CC96262q-COS)

William E. Kennard
Federal Communications Commission
Room 814
1919 M Street, N.W.
Washington, DC 20554

Gloria Tristani
Federal Communications Commission
Room 826
1919 M Street, N.W.
Washington, DC 20554

Michael K. Powell
Federal Communications Commission
Room 844
1919 M Street, N.W.
Washington, DC 20554

Harold Furchtgott-Roth
Federal Communications Commission
Room 802
1919 M Street, N.W.
Washington, DC 20554

Susan P. Ness
Federal Communications Commission
Room 832
1919 M Street, N.W.
Washington, DC 20554

A. Richard Metzger, Jr.
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, DC 20554

James D. Schlichting
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

Wanda Harris
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

David Hunt
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

International Transcription
Services, Inc.
1231 20th Street, N.W.
Washington, DC 20036